



SECURITIES AND EXCHANGE COMMISSION

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Proposed Collection; Comment Request

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Securities and Exchange Commission

Office of FOIA Services

100 F Street, NE

Washington, DC 20549-2736

Extension: Rule 17f-2

Notice is hereby given that, pursuant to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 et seq.), the Securities and Exchange Commission (the "Commission") is soliciting comments on the collection of information summarized below. The Commission plans to submit this existing collection of information to the Office of Management and Budget for extension and approval.

Rule 17f-2 (17 CFR 270.17f-2), entitled "Custody of Investments by Registered Management Investment Company," establishes safeguards for arrangements in which a registered management investment company or business development company ("fund") is deemed to maintain custody of its own assets, such as when the fund maintains its assets in a facility that provides safekeeping but not custodial services.¹ The rule includes four distinct requirements that are an information collection under the Paperwork Reduction Act. First, fund's directors must prepare a resolution designating not more than five fund officers or responsible employees who may have access to the fund's assets. Secondly, the fund's board must vote to approve this resolution. Third, the designated access persons (two or more of whom must act jointly when handling fund assets) must prepare a written notation providing certain information about each deposit or withdrawal of fund assets, and must transmit the notation to another officer

¹ The rule generally requires all assets to be deposited in the safekeeping of a "bank or other company whose functions and physical facilities are supervised by Federal or State authority."

or director designated by the directors. Lastly, an independent public accountant must verify the fund's assets three times each year, and two of those examinations must be unscheduled.²

Rule 17f-2's requirements are designed to safeguard fund assets from loss by requiring certain specific controls when those assets are not placed and maintained in the custody of a bank or other custodian as permitted under section 17(f) of the Investment Company Act of 1940 (15 U.S.C. 80a-17(f)) ("Act") and the rules thereunder. Specifically, the requirement that directors designate access persons is intended to ensure that directors evaluate the trustworthiness of insiders who handle fund assets. The requirements that access persons act jointly in handling fund assets, prepare a written notation of each transaction, and transmit the notation to another designated person are intended to reduce the risk of misappropriation of fund assets by access persons, and to ensure that adequate records are prepared, reviewed by a responsible third person, and available for examination by the Commission. The requirement that auditors verify fund assets without notice twice each year is intended to provide an additional deterrent to the misappropriation of fund assets and to detect any irregularities. Less frequent examinations by a fund's accountants could impair the ability of the Commission's examination staff to ascertain the fund's compliance with the rule.

The Commission staff estimates that each fund makes 974 responses and spends an average of 252 hours annually in complying with the rule's requirements.³ Commission staff estimates that on an annual basis it takes: (i) 0.5 hours of fund accounting personnel at a total cost of \$111 and 1 hour of fund attorney personnel time at a cost of \$425, for a total of 1.5 hours and a cost of \$536 to draft director resolutions;⁴ (ii) 0.5 hours of the fund's board of directors at a

² The accountant must transmit to the Commission promptly after each examination a certificate describing the examination on Form N-17f-2. The preparation and filing of Form N-17f-2, which largely serves as a cover-sheet for the accountant's certification of their audit, is covered by a separate information collection. The third (scheduled) examination may coincide with the annual verification required for every fund by section 30(g) of the Act (15 U.S.C. 80a-29(g)).

³ The 974 responses are: 1 (one) response to draft and adopt the resolution and 973 notations. Estimates of the number of hours are based on conversations with individuals in the fund industry. The actual number of hours may vary significantly depending on individual fund assets.

⁴ The estimate relating to fund accounting personnel is based on the following calculation: 0.5 (burden hours per fund) x \$221 (senior accountant's hourly rate) = approximately \$111. Unless otherwise indicated, the hourly wage figures used herein are from the Securities Industry and Financial Markets Association's Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work-year and inflation, and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead.

total cost of \$2,385 to adopt the resolution;⁵ (iii) 244 hours for the fund's accounting personnel at a total cost of \$71,102 to prepare written notations of transactions;⁶ and (iv) 3 hours for the fund's controller or administrator at a total cost of \$1,494 to assist the independent public accountants when they perform verifications of fund assets.⁷ The total of these four requirements would then be 249 hours at a cost of \$75,517 per respondent. Commission staff estimates that approximately 183 funds file Form N-17f-2 each year.⁸ Thus, the total annual hour burden for rule 17f-2 is estimated to be 45,384 hours.⁹ Based on the total costs per fund listed above, the total cost of rule 17f-2's collection of information requirements is estimated to be approximately \$13,819,611.¹⁰

The estimate of average burden hours is made solely for the purposes of the Paperwork Reduction Act, and is not derived from a comprehensive or even a representative survey or study of the costs of Commission rules and forms. Complying with the collections of information required by rule 17f-2 is mandatory for those funds that maintain custody of their own assets. Responses will not be kept confidential. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid control number.

Written comments are invited on: (a) whether the collection of information is necessary for the proper performance of the functions of the Commission, including whether the

⁵ The staff has estimated the average cost of board of director time as \$4,770 per hour for the board as a whole, based on information received from funds and their counsel.

⁶ Respondents estimated that each fund makes 973 responses on an annual basis and spends a total of 0.25 hours per response. The fund personnel involved are Accounts Payable Manager (\$208 hourly rate), Operations Manager (\$373 hourly rate) and Accounting Manager (\$296 hourly rate). The average hourly rate of these personnel is approximately \$292. The estimated cost of preparing notations is based on the following calculation: $974 \times 0.25 \times \$292 = \$71,102$.

⁷ This estimate is based on the following calculation: $3 \times \$498$ (fund controller's hourly rate) = \$1,494.

⁸ On average, each year approximately 183 funds filed Form N-17f-2 with the Commission during calendar years 2018-2020. As every fund subject to rule 17f-2 must file Form N-17f-2, we believe this is a good estimate for the number of respondents to the rule.

⁹ This estimate is based on the following calculation: 183 (funds) \times 249 (total annual hourly burden per fund) = $45,384$ hours for rule. The annual burden for rule 17f-2 does not include time spent preparing Form N-17f-2. The burden for Form N-17f-2 is included in a separate collection of information.

¹⁰ This estimate is based on the following calculation: $\$75,517$ (total annual cost per fund) \times 183 funds = $\$13,819,611$.

information has practical utility; (b) the accuracy of the Commission's estimate of the burden of the collection of information; (c) ways to enhance the quality, utility, and clarity of the information collected; and (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology. Consideration will be given to comments and suggestions submitted in writing within 60 days of this publication.

Please direct your written comments to David Bottom, Director/Chief Information Officer, Securities and Exchange Commission, C/O Cynthia Roscoe, 100 F Street, NE, Washington, DC 20549; or send an email to: PRA_Mailbox@sec.gov.

Dated: August 25, 2021.

Jill M. Peterson,

Assistant Secretary.

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